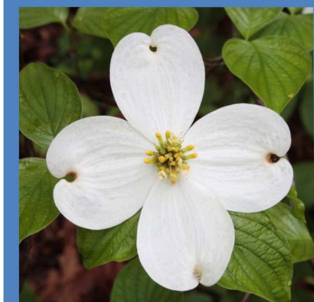

VIRGINIA MILITARY INSTITUTE

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2025

Auditor of Public Accounts
Staci A. Henshaw, CPA
www.apa.virginia.gov
(804) 225-3350

AUDIT SUMMARY

We have audited the basic financial statements of the Virginia Military Institute (Institute) as of and for the year ended June 30, 2025, and issued our report thereon, dated July 27, 2026. Our report, included in the Institute's basic financial statements, is available at the Auditor of Public Accounts' website at www.apa.virginia.gov and at the University's website at www.vmi.edu. Our audit found:

- the financial statements are presented fairly, in all material respects;

- five matters involving internal control and its operation requiring management's attention that also represent instances of noncompliance with applicable laws and regulations that are required to be reported under Government Auditing Standards; however, we do not consider them to be material weaknesses; and

- adequate corrective action with respect to the prior audit finding identified as complete in the Findings Summary included in the Appendix.

Our audit also included testing over federal Student Financial Assistance performed in accordance with the U.S. Office of Management and Budget Compliance Supplement Part 5 Student Financial Assistance Programs; and found internal control findings requiring management's attention and instances of noncompliance in relation to this testing.

In the section titled "Internal Control and Compliance Findings and Recommendations" we have included our assessment of the conditions and causes resulting in the internal control and compliance findings identified through our audits as well as recommendations for addressing those findings. Our assessment does not remove management's responsibility to perform a thorough assessment of the conditions and causes of the findings and develop and appropriately implement adequate corrective actions to resolve the findings as required by the Department of Accounts in Topic 10205 – Agency Response to APA Audit of the Commonwealth Accounting Policies and Procedures Manual. Those corrective actions may include additional items beyond our recommendation.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Controls Over Terminated Employees
Type: Internal Control and Compliance
Severity: Significant Deficiency
First Reported: Fiscal Year 2020

In prior audits, we found Virginia Military Institute (Institute) Human Resources personnel did not timely remove systems access for terminated employees. Management informed us that corrective action remained ongoing throughout the fiscal year 2025 audit period. As management plans to complete corrective action after the fiscal year under review, we will evaluate whether the corrective action achieved the desired result during the fiscal year 2026 audit.

The Commonwealth's Information Security Standard, SEC 530, which is the Institute's prior adopted security standard and the standard against which we evaluated this condition in the prior year, states an organization must disable accounts within 24 hours when the accounts are no longer associated with a user or individual. Additionally, the Institute's General Order 35 – Personnel Clearance Procedures Policy states, "As soon as the immediate supervisor learns of the departure or planned departure of an employee or other individual covered by this policy, the supervisor must complete the Employee Exit Alert prior to the employee's last day of employment." Human Resources is then responsible for entering the individual's separation date and account lock date within 24 hours of receiving the notification, which disables the individual's account.

Human Resources did not complete all corrective actions by the end of fiscal year 2025 due to the extent of the required efforts. Additionally, the Institute adopted a new security standard during the year under review. Delayed removal of terminated employees' systems access increases the risk of unauthorized access to the Institute's computer systems and facilities.

Human Resources should continue implementing planned corrective action to include ensuring all supervisors are properly trained in accordance with the requirements set out by the Institute's newly adopted security standard, the National Institute of Standards and Technology Standard 800-53 (NIST Standard) and are aware of the policies and procedures for terminating employees. Additionally, the Institute should continue encouraging supervisors to timely communicate separations to Human Resources.

Improve Security Awareness Training Policy and Program
Type: Internal Control and Compliance
Severity: Significant Deficiency

The Institute does not define certain control and process requirements for its security awareness and training program within its Information Technology (IT) Policies, Procedures, Standards and Operations document, IT-100 (IT-100 Policy). Also, the Institute does not consistently implement and enforce its security awareness and training program in accordance with its IT-100 Policy, General Order

27 Security Awareness Policy (Security Awareness Policy), and the Institute's adopted information security standard, the National Institute of Standards and Technology Standard, 800-53. Specifically, the following weaknesses exist:

- The Institute's Finance and Budget Office has not implemented a formal process to administer, monitor, and enforce compliance to ensure employees complete their financial role-based training. As a result, 33 out of 56 (58.9%) employees did not complete the Gramm-Leach-Bliley-Act training modules and seven out of 47 (14.9%) employees did not complete the Payment Card Industry training modules as assigned. The Institute's IT-100 Policy requires the Finance and Budget Office to provide role-based training on financial transactions. Additionally, the NIST Standard requires role-based training initially, when required by information system changes, and at organizationally defined intervals thereafter for employees with assigned security roles and responsibilities.

- The Institute does not enforce its requirement for employees to complete remedial training after failing a phishing exercise. Specifically, the Institute assigned 273 employees remedial training, but 131 (48%) did not complete the assigned training. The Institute's Security Awareness Policy requires employees who fail simulated phishing email exercises to complete supplementary security awareness training.

- The Institute's IT Department does not provide role-based training to its IT administrative employees on a regular basis after initially granting their privileged access. Additionally, the IT Department did not provide role-based training to a system administrator before granting initial administrative access and did not document an exception or business justification. The Institute's IT-100 Policy requires the IT Department to provide role-based training for employees with administrative accounts. Additionally, the NIST Standard requires role-based training initially, when required by information system changes, and at organizationally defined intervals thereafter for employees with assigned security roles and responsibilities.

- While the Institute's IT-100 Policy requires role-based training for employees with administrative accounts and in relation to financial transactions, the Institute does not define procedures to administer financial role-based training, nor a frequency for role-based training. The NIST Standard requires the Institute to develop, document, and disseminate an awareness and training policy that addresses details such as the purpose, scope, and compliance expectations, as well as procedures to facilitate the implementation of the awareness and training policy and associated controls.

The Institute does not consistently implement and enforce role-based training for staff with privileged access to sensitive information because it does not define all expected processes and controls to administer its security awareness and training program. Without ensuring each user completes role-based training as required, the Institute increases the risk employees will be unequipped to perform their assigned security-related functions and be more susceptible to malicious attempts to compromise sensitive data.

The Institute transitioned its information security program from being based on the Commonwealth's Information Security Standard, SEC530, to the NIST Standard during fiscal year 2025. While the Institute made minor adjustments to its IT-100 Policy, it did not define procedures, controls, and frequencies as the NIST Standard requires. Additionally, staffing constraints and other higher priorities contributed to the Institution not enforcing training it assigns to employees.

The Institute should review and update its IT-100 Policy and Security Awareness Policy to define and document its minimum control requirements and supporting procedures to administer its security awareness and role-based training program. The Institute should also monitor and enforce compliance to ensure employees complete assigned training. Updating its IT-100 and Security Awareness Policies and enforcing compliance will help protect the Institute from malicious attempts to compromise the confidentiality, integrity, and availability of sensitive and mission-critical data.

Comply with Prompt Pay Provisions

Type: Internal Control and Compliance
Severity: Significant Deficiency

The Institute did not always process payments in compliance with the prompt payment requirements of the Virginia Public Procurement Act (Procurement Act) during fiscal year 2025. The Institute paid three out of a sample of 27 (11%) payments beyond the time requirements set by the Procurement Act.

Code of Virginia § 2.2-4350 requires state agencies to pay for delivered goods and services within 30 calendar days of receipt of an invoice, or 30 days after receipt of the goods or services, whichever is later. Section 45100 Disbursement Policies of VMI's Accounting Policies and Procedures requires the Institute to disburse funds in a manner which meets the 30-day payment requirements of the Procurement Act and outlines that departments must timely submit disbursement requests to the Accounts Payable Office (Accounts Payable). Delayed payments may harm the Institute's reputation as a buyer, damage relationships with vendors, and could result in late fees.

The delays occurred because departments misplaced invoices and delayed submitting documentation to Accounts Payable. Additionally, breakdowns in interdepartmental communication further slowed the submission of required documentation. Accounts Payable cannot process payments in accordance with prompt payment requirements without the timely submission of invoices and receiving reports. To comply with the Procurement Act, the Institute should enforce existing prompt payment policies and compel departments to remit documentation to Accounts Payable timely.

<u>Improve Reporting to National Student Loan Data System</u>
Type: Internal Control and Compliance
Severity: Significant Deficiency

The Registrar’s Office did not report accurate and timely data to the National Student Loan Data System (NSLDS) for students that withdrew or changed enrollment levels. Staff turnover and insufficient monitoring led to deviations from established policies and procedures, resulting in the following instances of noncompliance within a sample of 33 students:

- The Institute reported an inaccurate effective date for eight students (24%);
- The Institute reported inaccurate information for at least one campus or program-level field deemed critical for eight students (24%);
- The Institute did not report enrollment status changes timely for five students (15%);
- The Institute reported an inaccurate enrollment status for two students (6%); and
- The Institute omitted program-level reporting for two students (6%), which resulted in unverifiable Classification of Instructional Program (CIP) Codes for those students.

In accordance with Title 34 § 685.309 within the Code of Federal Regulation (CFR), an institution shall submit, in accordance with deadline dates established by the Secretary of Education (Secretary), other reports and information the Secretary requires and shall comply with the procedures the Secretary finds necessary to ensure the reports are correct. As further outlined in the Federal Department of Education's (Education) NSLDS Enrollment Guide, institutions are required to certify enrollment every 60 days. The accuracy of Title IV enrollment data depends heavily on information reported by institutions. The Institute's inaccurate and untimely data submissions to NSLDS can affect Education’s reliance on the system for monitoring purposes. Noncompliance may also impact an institution's participation in Title IV programs.

The Registrar’s Office should strengthen supervision and enhance monitoring to consistently adhere to the federal reporting requirements by reporting accurate and timely student enrollment status changes to NSLDS. Further, the Registrar's Office should implement cross-training to ensure continuity of operations and compliance in the event of turnover.

<u>Improve Return of Title IV Processes</u>
Type: Internal Control and Compliance
Severity: Significant Deficiency

The Financial Aid Office did not properly perform the return of Title IV funds calculations and disburse the accurate amount of loan funds. For three of eight (38%) cadets tested, Institute staff used an incorrect enrollment period when calculating the return of Title IV funds, which caused $212 in overpayments. The Financial Aid Office relies on information the Registrar’s Office enters into the student information system to perform the Title IV funds calculation. Staff turnover and inadequate enrollment period review procedures within the Registrar’s Office caused the noncompliance.

In accordance with 34 CFR § 668.22(f)(2)(i), when a recipient of Title IV grant or loan assistance withdraws from an institution during the payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student’s withdrawal date. The total number of calendar days in a period of enrollment includes all days within the period that the student was scheduled to complete, except scheduled breaks of at least five consecutive days. In accordance with 34 CFR § 668.22 (j)(1), an institution must return the amount of Title IV funds for which it is responsible no later than 45 days after the date of the institution's determination that the student withdrew. Noncompliance may impact the Institute’s participation in Title IV programs.

The Registrar’s Office should perform a formal review of the enrollment period to ensure accurate return of Title IV calculations. Additionally, the Institute should implement cross-training to ensure continuity of operations and timely return of unearned funds to Education in the event of staff turnover.

Commonwealth of Virginia

Auditor of Public Accounts

Staci A. Henshaw, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

July 27, 2026

The Honorable Abigail D. Spanberger
Governor of Virginia

Joint Legislative Audit
and Review Commission

Board of Visitors
Virginia Military Institute

Lieutenant General David J. Furness
Superintendent, Virginia Military Institute

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the business-type activities and aggregate discretely presented component units of the **Virginia Military Institute** (Institute) as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Institute's basic financial statements and have issued our report thereon dated July 27, 2026. Our report includes a reference to other auditors who audited the financial statements of the component units of the Institute, as described in our report on the Institute's financial statements. The other auditors, excluding those of VMI Research Laboratories, did not audit the financial statements of the component units of the Institute in accordance with Government Auditing Standards, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with the component units of the Institute. Additionally, this report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters for VMI Research Laboratories, that are reported on separately by those auditors.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Institute's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control titled "Improve Controls Over Terminated Employees," "Improve Security Awareness Training Policy and Program," "Comply with Prompt Pay Provisions," "Improve Reporting to National Student Loan Data System," and "Improve Return of Title IV Processes," which are described in the section titled "Internal Control and Compliance Findings and Recommendations," that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institute's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards which are described in the section titled "Internal Control and Compliance Findings and Recommendations" in the findings titled "Improve Controls over Terminated Employees," "Improve Security Awareness Training Policy and Program," "Comply with Prompt Pay Provisions," "Improve Reporting to National Student Loan Data System," and "Improve Return of Title IV Processes."

The Institute's Response to Findings

We provided management with a draft of this report on July 23, 2026. Government Auditing Standards require the auditor to perform limited procedures on the Institute's response to the findings identified in our audit, which is included in the accompanying section titled "Institute Response." The Institute's response was not subjected to the other auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on the response.

Status of Prior Findings

The Institute has not taken adequate corrective action with respect to the prior reported finding identified as ongoing in the Findings Summary included in the Appendix. The Institute has taken adequate corrective action with respect to the prior audit finding identified as complete in the Findings Summary included in the Appendix.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

SDB/vks

FINDINGS SUMMARY

Finding Title	Status of Corrective Action*	Fiscal Year First Reported
Ensure Proper Documentation of Bank Reconciliations	Complete	2021
Improve Controls Over Terminated Employees	Ongoing	2020
Improve Security Awareness Training Policy and Program	Ongoing	2025
Comply with Prompt Pay Provisions	Ongoing	2025
Improve Reporting to National Student Loan Data System	Ongoing	2025
Improve Return of Title IV Processes	Ongoing	2025

* A status of **Complete** indicates management has taken adequate corrective action. A status of **Ongoing** indicates new and/or existing findings that require management's corrective action as of fiscal year end.

VIRGINIA MILITARY INSTITUTE
LEXINGTON, VIRGINIA 24450-0304

Finance and Budget
Office: 540-464-7270
Fax: 540-464-7794

24 July 2026

Staci Henshaw, CPA
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Dear Ms. Henshaw:

The Virginia Military Institute has reviewed the findings and recommendations provided by the Auditor of Public Accounts for fiscal year ended June 30, 2025.

Management agrees with all findings and will continue to work towards a resolution.

If you have any questions or need additional information, please do not hesitate to contact me by phone at (540) 464 -7216 or by email at brownps@vmi.edu

Most Respectfully,

Pamela S. Brown
Assistant Director of Finance and Budget, Virginia Military Institute